

**EFFECTS OF BUDGETARY CONTROL AND CASH FLOW EFFECTIVENESS ON
SMALL AND MEDIUM SIZED ENTERPRISES' PERFORMANCE A
CASE STUDY OF GLOBAL PAINTS LIMITED (GLP)**

NAKAWA DIVISION

BY

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**A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS
AND MANAGEMENT SCIENCES IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE AWARD OF BACHELORS
DEGREE IN BUSINESS ADMINISTRATION OF
KAMPALA INTERNATIONAL
UNIVERSITY**

MAY, 2012

DECLARATION

I, Mbabazi Moses, declare that this work is original and is a result of my own effort and has not been submitted to any institution of higher learning, college or university for any academic award whatsoever.

Signature


.....

MBABAZI MOSES (STUDENT)


Date..... 7/06/2022.....

APPROVAL

This is to certify that MBABAZI MOSES is the one who has done this research proposal on Global Paints Limited (GLP) Nakawa Division under me as a university supervisor in partial fulfillment of the requirements for the award of a Degree in Business Administration of Kampala International University.

Dr. Stanley Kinyata (Supervisor)

Signature.....

Date.....

DEDICATION

I dedicate this research to my beloved Parents Mr. Mugisha John and Mrs. Mugisha Anne, my brothers; Felix, Ivan and sisters; Gloria, Viola, Sarah, my friends Baguma S, Ampeire B, Hyacinthe, Winnie, Madrine, Allan, Apophia for the support they offered me all through my course.

ACKNOWLEDGEMENT

I thank the Almighty God, who has given me Good health, Courage, Determination and Perseverance throughout my academic struggle for without HIM nothing would ever be possible.

Special thanks also go to my beloved parents Mr. Mugisha John and Mrs. Mugisha Anne for their tireless support throughout my life. May God reward you abundantly.

I greatly extend my thanks and appreciation to my supervisor Dr. Stanley Kinyata who played a big role to enable the completion of my research report.

Special thanks also go to Management of global paints limited for the great contribution towards the completeness of my research work. May GOD bless you and reward you abundantly.

Special thanks go to my friends; Baguma, Rebecca, Susan, Apophia and all other people who have helped me complete my research work.

May The Almighty God Bless You.

LIST OF ABBREVIATIONS

| | |
|-------------|--|
| GPL | Global Paints Limited |
| SMEs | Small and Medium Sized Enterprises |
| CIMA | Institute of Cost and Management Accountants |

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ABSTRACT

Budgetary control and cash flow effectiveness

The purpose of the study was to determine the relationship between the effects of Budgetary Control and Cash Flow Effectiveness on Small And Medium Sized Enterprises' performance in organizations especially Global Paints Limited.

In chapter one the researcher covered the background the study, stated the problem statement, the scope of the study and finally the signification of the study.

In chapter two, the researcher initially started by defining Budgetary Control and Cash Flow Effectiveness as defined by different authors. He went ahead to explain the Budgetary Control and Cash Flow Effectiveness systems, effects and characteristics.

In chapter three, the researcher provided information on the instruments used in collecting data. He showed the study population and sample size, and sampling design and procedure, mentioned both primary and secondary collection methods used and how data was analyzed, processed and presented including the limitations of the study.

In chapter four, the researcher presented the findings of Global Paints Limited where he showed how the questionnaire were administered' and analyzed. Discussions of these findings were presented accordingly following researcher objectives. The researcher used tables, frequencies and percentages.

The last chapter, the researcher summarized the findings and drew the conclusions from these findings and also provided recommendations to organizations under the study and other related organizations. The researcher further suggested more research areas for future researchers

CHAPTER ONE

1.0 INTRODUCTION

This chapter consisted of the background of the study, Problem Statement, purpose of the study, the Objectives of the study, research questions, scope of the Study, significance of the study and operational definitions.

1.1 BACKGROUND OF THE STUDY

Budgetary control as a tool to effective cash flow management involves establishment of budgets and the continuous comparison of actual with budgeted results either to secure by individuals' action the objectives of that policy or to provide a basis for its revision (The chartered institute of Management Accountants).

In order to avoid Cash flow problems, all businesses face a task of accounting for finances through the preparation of cash flows, income statements, balance sheets and budgets. Wood and Sangster (2001) states that when a plan is expressed quantitatively, it's known as a budget and the process of converting plans into budgets called budgeting. All budgets should be properly controlled in order to meet the goals and objectives of the firm.

"When you operate a business, in particular, a small business, cash is King! In general, if you're out of cash, you are out of business" Kent Nelson (2008). This is why properly managing the cash flow in a business is critical to its success.

In its simplest terms, Cash flow management means receiving payments from your customers as quickly as possible and making payments to vendors as timely as possible. However, managing your cash flow is not always that simple and can require additional time and effort to stay on top of it.

Is it possible for a business to be highly profitable, but run out of cash? Yes! Imagine you get paid for your sales at the time of purchase, like a retail store, you would rarely have a cash flow problem unless you are managing your inventory poorly.

According to Cyllid (2006), Cash flow is generally acknowledged as the single most pressing concern of the SMEs (small and medium-sized enterprise). In its simplest form cash flow is the movement of money in and out of your business; Cash flow is the life-blood of all growing businesses and is the primary indicator of business health. The effect of cash flow is real, immediate and, if mismanaged, totally unforgiving. Cash needs to be monitored, protected, controlled and put to work.

Some of the most successful businesses that include (Amazon, Dell Computers and Wal-Mart) have seen success through maintaining their budgets by carrying out effective budgetary control hence achieving the budgetary costs. Many other small and medium sized enterprises however, still find problems with maintaining their budgets and have experienced high cash flow problems (Kent Nelson, 2008). These problems have not only resulted into closure of businesses but also arrangements into acquiring heavy debts with high interest rates.

Therefore, a study was intended to be carried on the effect of budgetary control on cash effectiveness in small medium enterprises in Global paints limited this shall take into account study of their budgetary controls and cash flow effectiveness of these SMEs including preparation of budgets and efforts to maintain the prepared budgets and that's the foundation reason for carrying out this research.

1.2 STATEMENT OF THE PROBLEM

From the background, it was noted that a business that operates without budgetary controls is most likely to face cash flow problems. Success at cash flow management through preparation of budgets ensures long run sustainable profits, the reduction of costs to firms and smooth running of the business (Noreen 2007). However, this has not always been achieved due to poor cash flow management techniques like improper budgeting. Small and medium size enterprises like Global Paints Limited have experienced cash flow problems over the years due to lack of budgetary controls in place (The New Vision 19th March 2007). This greatly affects their Cash flow Effectiveness.

1.3 PURPOSE OF THE STUDY

The study was carried out to establish the relationship between budgeting, budgetary control and cash flow effectiveness in Small and Medium Size Enterprises like Global paints limited (GPL).

1.4 RESEARCH OBJECTIVES

- i. To examine the budgeting process and the budgetary control process in Global Paints Limited.
- ii. To examine the different budgeting and budgetary control tools used in Global Paints Limited.
- iii. To establish the cash flow tools used in Global Paints Limited.
- iv. To analyze the relationship between budgetary control and cash flow effectiveness used in Global Paints Limited.

1.5 RESEARCH QUESTIONS

- i. What budgeting control processes are used in Global Paints Limited?
- ii. What are the different budgeting and budgetary control tools used in Global Paints Limited?
- iii. What are the cash flow management tools used in Global Paints Limited?
- iv. What is the relationship between budgetary control and cash flow effectiveness in Global Paints Limited?

1.6 SCOPE OF THE STUDY

1.6.0 Time scope

The study covered the period from 2009-2012 and was centered on the information within these years, the study also took a period of 4 months from February to May 2012.

1.6.1 Subject Scope

The study focused on establishing the relationship between budgetary control and cash flow effectiveness in Global Paints Limited.

1.6.2 Geographical Scope

The study was carried out in Global Paints Limited located along Jinja road in Nakawa division.

1.7 SIGNIFICANCE OF THE STUDY

- i. The research helped SMEs to draw more focus on budgeting and budgetary control processes in the bid to monitor their cash flows.
- ii. The research benefited the researcher with more knowledge on budgeting, budgetary control and cash flow management.
- iii. The study was a necessary base for future research in the same or related area.
- iv. The researcher enhanced his skills on how to conduct research findings and to be able to generate solutions to business problems.

1.8 Conceptual framework.

Independent variables

Budgetary control

- Compels management to think about the future
- Promotes coordination and communication
- Clearly defines areas of responsibility
- Enables remedial action to be taken as variances emerge

Cash flow effectiveness

- enables management to predict peaks and falls within the organization
- enables assessment of the cash inflows and out flows

Dependent variable

Performance of SMEs

- Proper allocation of scarce resources.
- Monitoring of deviations from budget if any.
- Knowledge of the organizations inflows and outflows in terms of cash.
- Ease in acquisition of loans when needed.



CHAPTER TWO: LITERATURE REVIEW

2.0 INTRODUCTION

This chapter covered related literature review from various sources with related context to the study. The researcher analyzed the literature by quoting it from source documents such as text books, journals, articles, company documents, the internet and related literature. The study discussed budgeting, budgetary control, cash flow techniques and the relationship between budgetary control and cash flow effectiveness used in SMEs.

2.1 BUDGETING AND BUDGETARY CONTROL

There are two types of control, namely budgetary and financial. Budgetary control is define-d by the Institute of Cost and Management Accountants (CIMA) as:

"The establishment of budgets relating the responsibilities of executives to the requirements of a policy, and the continuous comparison of actual with budgeted results, either to secure by individual action the objective of that policy, or to provide a basis for its revision".

2.1.1 BUDGETARY CONTROL METHODS

There are two methods of budgetary control. These are discussed below:

2.1.1 Budget:

Definition of a budget

Many Scholars put forward various definitions of a budget. According to Lucey (1996), a budget is a qualitative expression of a plan of action prepared in advance of the period to which it relates. Lucey further asserts that a budget may be prepared for the business as a whole, for departments, for functions such as sales and for production. Emiley (2002) defines a budget as a formal statement of the financial resources set aside for carrying out specific activities in a given period of time. On the other hand Kamukama (2006) defines a budget as not only a qualitative but a quantitative but a qualitative plan of action expressed in monetary terms and is used as a tool to control resources.

In contrast, Pandey (1998) describes a budget as an action plan to guide managers in achieving the objectives of a firm. Wood and Sangster (1996) summarize all the above by saying that when a plan is expressed quantitatively it's known as a budget and the process of converting plans into budgets is known as budgeting. Luciddomains.com gives a detailed explanation of budgeting by defining it as the process whereby the plans of an institution are translated into an itemized, authorized and systematic plan of operation.

2.1.2 Budgetary control

According to Proxy (1995), Budgetary control is defined as the continuous comparison of actual results against budgets to form a basis of revision, that is actual Cash flow Effectiveness should be frequently compared against budgeted Cash flow Effectiveness in order to take corrective action in case of any variances. On the other hand, Baggot (1999) defines budgetary control as the establishment of budget relating to the responsibilities of executives to the requirement of policy, and the continuous comparison of actual with the budgeted results.

Drury (1996) and CIMA all agree with the definition of budgetary control as the establishment of budgets relating to the responsibilities of executives of a policy and the continuous comparison of actual with the budgeted results either to secure by individual action the objectives of the policy or to provide a basis for its revision.

2.1.3 Characteristics of a budget

According to Kamukama (2006) budget characteristics are as follows:

It is a plan for the firms operations and resources

It is expressed in financial terms

It is a guide or blue print for the forthcoming period

It is a plan of firm's expectation in future.

Kamukama (2006) and CIMA agree on some characteristics like comprehensiveness however, CIMA cites other more characteristics like; Participating (drawing up budget involves as many people as possible), Standards (it's based on established standards of Cash flow Effectiveness). Flexibility (allows for changing circumstances), Feedback (Constantly monitor Cash flow Effectiveness) and analysis of costs and revenues.

2.1.4 The Budgeting Process

Luciddomains.com defines the budgeting process as a decision making process on the allocation of resources. Jones and Pendlebury (1984) give an insight into the beginning of the budgeting cycle when they present a "timetable for preparation of detailed revenue budget and Working Capital program" On the other hand, Drury (2000) noted that budgeting involves a series of sequential stages which need to be coordinated so as to achieve the final budget and this process goes as follows:

Communicating Details of Budget Policy

The need to prepare budget and the needed guidelines is communicated to those people responsible for the preparation of the budgets. Management must ensure that all policy effects should be made aware of staffs who are participating in budget making. Other guidelines that are to govern the preparation of the budget should be specific.

Determining the Factor That Restricts Cash flow Effectiveness

Management should strive and identify the factor that restricts Cash flow Effectiveness so as to enable management to allocate resources in the most efficient manner. Examples of limiting factors in organizations may include; space, machine or labor hours and raw materials.

Preparation of Revenue Budgets

This provides a forecast of future sales or revenue to be made. This is a cumbersome stage because it involves the forecast and analysis of economic factors or market forces. Since all other operational budgets are based on the sales or revenue budgets, it is important that a sales budget must be prepared first.

Preparation of budgets

Managers who are responsible for meeting the budgeted Cash flow Effectiveness should prepare the budget for areas for which they are responsible and all these budgets are integrated and coordinated into a master budget.

Negotiation of Budgets

The lower cadres who originate sectional budgets usually present them to their immediate supervisors. These supervisors usually negotiate the budgets with their subordinates or with their supervisors in their line of Command.

Coordination and Review of Budgets

The independent budgets prepared by different sections should be reviewed and reconciled to ensure that they address the same objectives.

Final Acceptance of the Budget

After the prepared budgets have been harmonized and accepted, they are integrated into a master budget. The master budget is a comprehensive budget which covers all the operational budgets, for example sales budget, production, material usage, labor costs and factory overhead cost budgets. It also covers forecasted income statements, balance sheet statements and cash flow statements.

Budget Review

This covers a control stage which must be carried out in order to establish whether the set objectives are being achieved. This stage also involves taking of action to address any anomaly.

2.2 BASIC STEPS OF THE BUDGETARY CONTROL PROCESS

According to Drury (1996), the following are the steps involved in the budgetary control process.

- i. Establish a budget or target of Cash flow Effectiveness for each department or function of the organization.
- ii. Compare actual Cash flow Effectiveness with the budget.
- iii. Ascertain the reasons for the difference between actual and budgeted Cash flow Effectiveness.
- iv. Take suitable remedial action so that budgeted Cash flow Effectiveness may be achieved.

2.3. ESSENTIALS OF EFFECTIVE BUDGETING

Lucey et al (1996) agrees that a budgetary control system can provide tangible results when certain conditions are observed. Failure to observe and appreciate these essentials will render the budgeting exercise useless. Such conditions and pre requisite for successful budgeting include the following:

Top Management Support

www.laynet.com asserts that if a budget is to be successful it must be fully supported by every top member of management. On the other hand (Nixon, 2006) agrees but adds support alone is not enough but top management involvement is also an important tool. Therefore, top management support should go hand in hand with involvement,

Reasonable Goals

Drury (1996) and Lucey (1996) agree that the budget figures should be realistic and represent reasonably attainable goals. Kamukama (2006) also agrees with the above authors but adds that the goals should be clear and an ambiguously established for budgeting to be successful.

Clearly defined Organizations

In order to derive maximum benefits from the budget system, well defined responsibility structures should be built up within the organization (Lucey and Drury 1996).

Adequate Accounting System

Drury (1996) says that there is a close relationship between budgeting and accounting for the preparation for budgets. One has to depend heavily on accounting department to acquire reliable historical data which forms the basis for many estimates.

Integration with Standard Costing System

Where standard costing system is used, it should be completely integrated with the budget program in both budget preparation and variance analysis. Kamukama (2006) however gives other essentials like;

Ability to produce budgets in time

The time period covered by the budget should be related to the necessity for and the responsibility of effective management action.

Ability to make budget changes

He argues that the budget system should be flexible enough to take advantage of all opportunities that arise from time to time.

2.4. BENEFITS OF BUDGETS AND BUDGETARY CONTROL

Budgets provide benefits both for the business, and also for its managers and other staff:

The budget assists planning

By formalizing objectives through a budget, a business can ensure that its plans are achievable. It was able to decide what is needed to produce the output of goods and services, and to make sure that everything was available at the right time.

The budget communicates and co-ordinates

Because a budget is agreed by the business, all the relevant managers and staff were working towards the same end. When the budget is being set, any anticipate problems should be resolved and any areas of potential confusion clarified. All departments should be in a position to play their part in achieving the overall goals.

The budget helps with decision-making

By planning ahead through budgets, a business can make decisions on how much output - in the form of goods or services - can be achieved. At the same time, the cost of the output can be planned and changes can be made where appropriate.

The budget can be used to monitor and control

An important reason for producing a budget is that management is able to use budgetary control to monitor and compare the actual results (see diagram below). This is so that action can be taken to modify the operation of the business as time passes, or possibly to change the budget if it becomes unachievable.

The budget can be used to motivate

A budget can be part of the techniques for motivating managers and other staff to achieve the objectives of the business. The extent to which this happens will depend on how the budget is agreed and set, and whether it is thought to be fair and achievable. The budget may also be linked to rewards (for example, bonuses) where targets are met or exceeded.

2.5 EFFECTIVE CASH FLOW MANAGEMENT

Cash flow management means receiving payments from your customers as quickly as possible and making payments to vendors as timely as possible. However, managing your cash flow is always that simple and can require additional time and effort to stay on top of it. According to Cyllid (2006) Cash flow is generally acknowledged as the single most pressing concern of the SMEs (small and medium-sized enterprise). In its simplest form cash flow is the movement of money in and out of your business.

2.5.1 Advantages accruing to good cash flow management

Cash is what enables a business to survive and grow and it is what indicates that a business is healthy. Without cash your business won't go anywhere. Your business would survive without sales for a while but if it doesn't have cash behind it you can safely say it is doomed from the start. In order to keep your business from failing you need to have good cash flow management. You need to keep track of all your business incomings and outgoings.

Another way of achieving good cash flow management is through the process of monitoring, analyzing and adjusting your businesses cash flow. In order to do this you need to perform a cash flow analysis on a regular basis in order to stop problems from happening. Cash flow management is essential to keep organizations in business and to help you maintain your management you should perform what is known as cash flow forecasting. By forecasting the cash flow of your business you are able to predict peaks and falls within your cash flow and it also comes as a help to you if you ever need to approach a bank concerning your finances.

This is because many banks require forecasts before they will consider giving you a cash flow. When you are undertaking cash flow forecasting it is important that you have two cash flow forecasts; one that covers the next twelve months and another showing the actual figures for the past twelve months. By maintaining the cash flow to your business it allows you to identify the sources and amount of cash that is coming into your business as well as where your money is going and the amount of money that is going to all the different places.

The purpose of good cash flow management is to provide a business owner with projected figures that were calculated to ensure the survival of a business and to achieve business targets. For small businesses the most important aspect of management is avoiding extended cash shortages, which is often caused by having too much of a gap between cash flowing in and out of a business. You won't be able to stay in business if you can't pay your bills for any extended length of time. Cash flow management is key to ensuring that your business succeeds where many other businesses have failed so get a grip on your finances today and get your cash flow management off the ground and in full swing.

2.6. RELATIONSHIP BETWEEN BUDGETARY CONTROL AND CASH FLOW EFFECTIVENESS

Budgetary control is a system of controlling costs through budgets. Drury (1996) argues that for any manufacturing firm to ensure cost management, budgeting is the first thing to be done. Shane (1994) explains further that the first step in budgeting process is to gain an understanding of the firm's cost behavior;

Knowledge of cost behavior will allow management to predict the anticipated costs that was incurred in the next operating period at the planned activity level. Drury (2000) states that the first step in budgeting process is communicating details of the budgeting policy which includes communicating the need for preparing budgets to those people responsible like managers. This knowledge will allow management to predict the anticipated costs in terms of cash inflows and cash out flows respectively that was incurred in the next operating period at the planned activity level.

Firms are challenged with a task of pre-determining activities, cash flows and the means to achieve them. Because of these, budgeting becomes a yardstick for cost minimization in Small Medium Enterprises.

2.7. CONCLUSION

For small medium enterprises to be successful, management should always review of all financial statements and cash flow statements including ratios monthly. Review budgets periodically and make any adjustments as necessary. The key is staying on top of the cash situation. There are several traps to avoid in managing cash flow: don't assume you can operate on too tight of a budget that does not allow for the cash needs of the business; and don't ignore business problems but deal with them effectively and quickly. Try to plan and anticipate both external and internal factors, which may have an impact on the company's cash flow. Budgetary control and Planning ahead is the key.

CHAPTER THREE

METHODOLOGY

3.0. INTRODUCTION

In this chapter, the methods used in the collection of the data for this study are outlined. The Chapter comprised of a discussion of the research design, study population, sampling design and technique, sources of data, data collection methods, data processing and problems encountered.

3.1 RESEARCH DESIGN

The research design was conducted using the descriptive and analytical research designs where both the qualitative and quantitative methods were employed in the collection and analysis of the data.

3.2. STUDY POPULATION

The researcher constructed a sample in Global paints limited. This category of respondents gave the study a more objective perspective on the effect of budgetary controls on cash flow effectiveness in Global paints limited. The study selected 80 respondents from a population of 100 persons. They included managers, accountants, junior managers, auditors and junior accountants.

3.3 SAMPLING DESIGN AND SIZE

3.3.1 Sampling Design

Stratified random sampling was used to select the sample due to the differences in the nature of their positions. Sampling was also used in data collection since it was not possible to obtain data from all respondents.

3.3.2 Sample Size

From the targeted population of 100 employees selected from top management and subordinate workers from other departments. I used the Yamane formula (1973) to calculate the sample size.

$$n = \frac{N}{1 + ne^2}$$

Where n=sample size, N= total population, e= deviation of sampling (degree of error at 0.05 level of significance)

$$n = \frac{100}{1 + 100(0.05)^2}$$

$$n = \frac{100}{1 + 100(0.0025)}$$

$$= 80 \text{ people.}$$

Table 1: Total Respondents

| Category of respondents | Number of employees | Sample size |
|--------------------------------|----------------------------|--------------------|
| Managers | 13 | 13 |
| Junior managers | 19 | 18 |
| Auditors | 10 | 7 |
| Accountants | 27 | 19 |
| Junior accountants | 31 | 23 |
| Total | 100 | 80 |

3.4 DATA COLLECTION METHODS AND RESEARCH INSTRUMENTS

3.4.1 Data Collection instruments.

The study used both primary and secondary data.

Primary data

This was collected by distributing self-administered questionnaires and interviews conducted between the researcher and the respondents.

Secondary data

The researcher argument the field research findings from magazines, newspapers, budgetary reports, and internet and World Bank publications.

Research instruments

Questionnaire and interviews were used as data collection instruments.

Questionnaires: Questionnaires were physically distributed to the respondents by the team leaders and they were collected back after completion. The questionnaires mainly included closed ended questions though few required a bit of explanation.

The questionnaires were more convenient and cost effective to both the researcher and respondents thus were preferred. Being convenient, it was easier to gather more reliable data.

Interview: The researcher's interviewees mainly included small medium enterprises Global paints limited. This is because these interviewees operate such businesses on a daily basis and were capable of giving detailed, unbiased and reliable information about the effect of budgetary controls on the cash flow effectiveness in their businesses.

3.5. DATA QUALITY CONTROL

The data collected was edited by the researcher on a quality control measure.

This was done to ensure completeness of questionnaires and knowing questions with numbers and others towards the topic to drive statistic meaning of the data in tables indicating frequencies and percentages. Pre- tests of the instruments were done to ensure reliability and productivity of each tool towards producing required results.

3.6. DATA PROCESSING AND ANALYSIS

The researcher categorized the information to enable easy editing, coding and tabulation. The data was then analyzed by percentages. Graphs and pie charts were then to be used therein to present the data collected.

The data processing was accomplished by using application software such as Microsoft Word, Excel for tabulation and graphical presentation. The emphasis was put on accuracy, precision and completeness of information.

3.7. LIMITATIONS

During the course of field research, the author was most likely to encounter the following problems:

The researcher anticipated the following limitations:

Little or no cooperation from the management and unwillingness of some respondents to give relevant information

Illiteracy of the respondents: The illiteracy of the respondents hinder proper understanding of the questionnaires by the respondents. This thus called for acquisition of interpreters making the exercise more expensive and lengthy.

Miss perception of the researcher. The management of Global Paints Limited's perception of the respondent hindered the data collection process. Most of the respondents thought of the researcher to be a spy out to get their success tricks and sell them to competitors.

Interviewee Apathy: There was a risk that many of the questions asked would not receive adequate responses especially where the interviewees may be inhibited by uncertainties. However, the responses provided were sufficient to make an accurate assessment of the practical effects of budgetary control on cash flow effectiveness in SMEs.

CHAPTER FOUR

DATA PRESENTATION, INTERPRETATION AND ANALYSIS

4.1. INTRODUCTION

This chapter presents the results of the study according to the study objectives. It comprises of descriptive statistics and inferential statistics. Descriptive statistics include frequencies and cross tabulation that explains the distribution of respondents on demographic variables across specific areas of residence that were covered by the study. The inferential statistics include factor reduction, Pearson's product moment correlation and multiple regression analysis.

4.2 DESCRIPTIVE STATISTICS

In this section, the demographic characteristics of the respondents are presented. Demographic characteristics presented include age, marital status and gender respondent. These characteristics are shown across tabulation against duration spent in Global Paints Limited by the respondent. Cross tabulation tests (chi square test), if the p values is less than 0.05 then there is significance difference between the two variables tested. This shows that the two variables depend on each other.

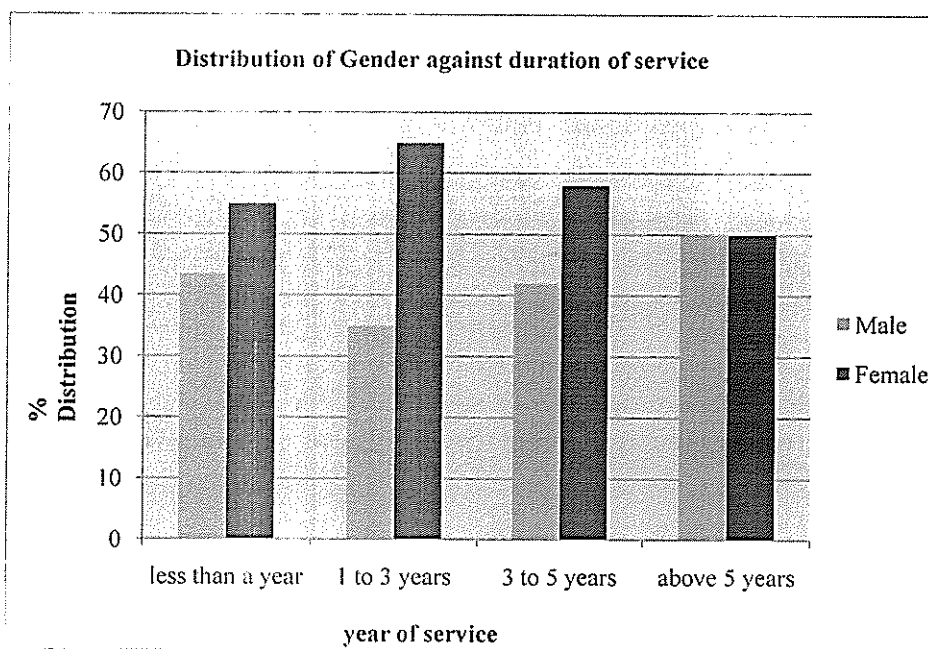
4.2.1 Gender and Duration in Organization

From the table 4.1 below, there is no significant difference between the gender and the duration the respondent has spent in the service of the organization.

Among the respondent the majority were female taking 60 percent. Most of the respondents have spent duration of 1 to 3 years Managers in Global Paints Limited taking the biggest percentage of 43.3%, while very few have spent more than 5 years in Global Paints Limited with only a portion of 3.3 on every hundred.

More details have been elaborated in the table below.

Table 4.1: Percentage Distribution of Gender against Duration in the Global Paints Limited

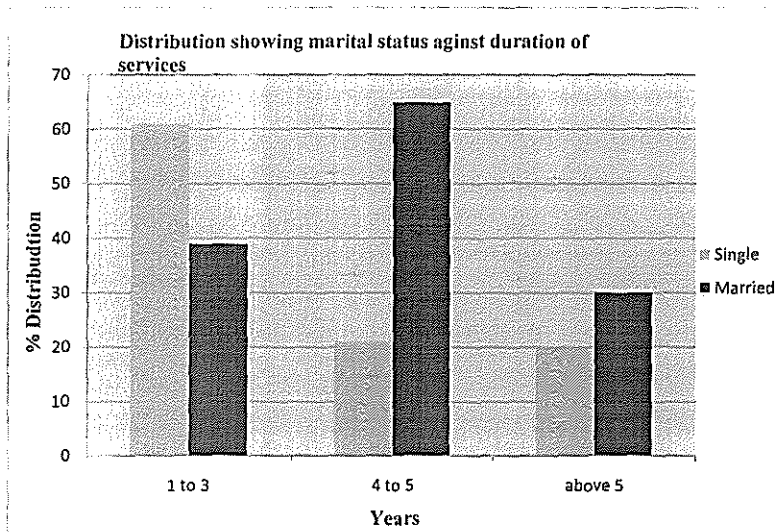


Data source: Primary Source

4.2.2 Duration and Marital Status

Table 4.2 show a significant difference between the marital status and the duration spent in the organization. It's also evidenced that majority of the respondents (51.7 percent) are married, 41.7 percent single and the rest not defined well via marital status. The people p value of 0.039 is less than meaning that marital status heavily affects the duration the respondents spent in the Global Paints Limited

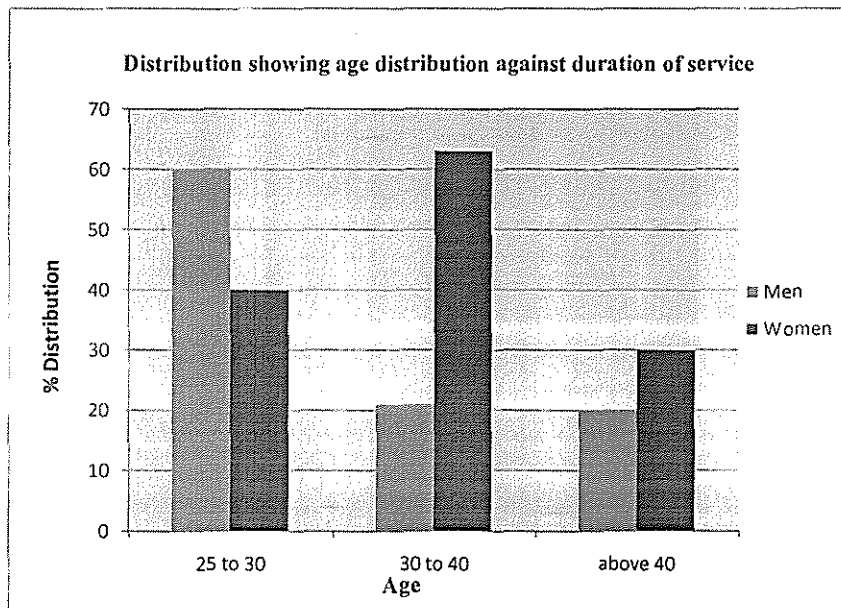
Table 4.2: Percentage Distribution of Marital Status against Duration in the Global Paints Limited



Data source: Primary Source

The table 4.3 shows that there strong significant difference between the duration respondents have spent in the Global Paints Limited and the age distribution. The majority of the respondents are between the ages 25 to 40 years. With 45 percent between 25 and 30, while 35 percent are between 30 and 40 years. There are very few respondents with over 40 years of age. The few people that are over 40 years have spent a longer duration in the Global Paints Limited. This is evidenced with the five respondents with over 41 years; they have spent duration more than three years at the Global Paints Limited.

Table 4.3: Percentage Distribution of age distribution against duration of service in Global Paints Limited



Data source: Primary Source

4.3 ANALYSIS OF FINDINGS

4.3.1 Findings on budgeting process and the budgetary control process in Global paints limited

Table 4.4 below reflects findings on the forms of budgetary controls in Global Paints Limited; 43% of those who filled the agreed that Global Paints Limited has a clear system of motivating employee. 57% strongly agreed that the organization identifies and fits employee needs. Similarly, 43% agreed that the organization adopts performance related pay. Basing on whether the organization provides to its stall annual leave, the biggest percentage of 43% agreed upon this, reflecting that this was a motivating factor for most of them. When asked whether the organization carry out promotions basing on individual capability, 71% strongly agreed, while 43% agreed that Budget holders are always involved in the setting of the budget, this was similar to those who were asked whether the organization encourages team dynamics. Basing on this the above findings concerning the aspect of budgetary control that are used at Global Paints Limited, a mean of 0.48 strongly agreed with a standard deviation of 0.111. Those who agreed had a mean of 0.273, with a standard deviation of 0.072; those who were not sure had a mean of 0.101 with a standard deviation of 0.0527. Those who disagreed had a negligible mean of 0.066 with a standard deviation of 0.016. These draw a conclusive element that Global Paints Limited has in place several forms of budgetary control, which are more favorable to her employees. Much of these findings can be reflected in the table below:

Table 4.4: Indicators of budgeting process and the budgetary control process in Global paints limited

| Forms of budgetary control | SA | f | A | f | NS | f | D | f | SD | f |
|--|-------------|----------|-------------|----------|-------------|----------|-------------|----------|--------------|----------|
| The organization has developed a strategic plan | 29% | 10 | 43% | 15 | 14% | 5 | 6% | 2 | 9% | 3 |
| Here is a requirement to meet financial targets in the business plan | 57% | 20 | 29% | 10 | 6% | 2 | 6% | 2 | 3% | 1 |
| The plan for the organization always includes a budget | 29% | 10 | 43% | 15 | 14% | 5 | 9% | 3 | 6% | 2 |
| The performance related pay motivates me to work for this organization | 63% | 22 | 23% | 8 | 3% | 1 | 9% | 3 | 3% | 1 |
| The organizational budget is aligned with the risk management plan | 43% | 15 | 29% | 10 | 20% | 7 | 6% | 2 | 3% | 1 |
| There is a contingency plan in place to deal with deficits | 57% | 20 | 14% | 5 | 6% | 2 | 6% | 2 | 3% | 1 |
| Budgetary responsibilities are always established | 71% | 25 | 9% | 3 | 0% | 5 | 3% | 1 | 3% | 1 |
| Staff are aware of their responsibilities | 43% | 15 | 29% | 10 | 14% | 5 | 9% | 3 | 6% | 2 |
| Budget holders are always involved in the setting of the budget | 43% | 15 | 29% | 10 | 14% | | 9% | 3 | 6% | 2 |
| MEAN | 0.4 | | 0.2 | | 0.10 | | 0.06 | | 0.044 | |
| Standard deviation | 0.11 | | 0.07 | | 0.05 | | 0.01 | | .01 | |

Data source: primary source

Table 4.2.2 Findings on the cash flow tools used in Global paints limited.

| Cash flow effectiveness | SA | f | A | f | NS | f | D | f | SD | F |
|--|------------|----------|-------------|----------|-------------|----------|-------------|----------|--------------|----------|
| Business and strategy has increased cash flow effectiveness over the years | 43% | 15 | 29% | 10 | 14% | 5 | 6% | 2 | 9% | 3 |
| This company has opportunities in place for increasing cash flow | 57% | 20 | 29% | 10 | 6% | 2 | 6% | 2 | 3% | 1 |
| This company has difficulty in raising cash flows | 29% | 10 | 43% | 15 | 14% | 5 | 9% | 3 | 6% | 2 |
| This company's saving interest is always above average | 57% | 20 | 29% | 10 | 3% | 1 | 9% | 3 | 3% | 1 |
| This company always compare the annual operating budget regularly with the actual expenses | 43% | 15 | 29% | 10 | 20% | 7 | 6% | 2 | 3% | 1 |
| The company always generate stead cash flow | 57% | 20 | 14% | 5 | 6% | 2 | 6% | 2 | 3% | 1 |
| The board always monitors cash flow movements | 71% | 25 | 9% | 3 | 0% | 0 | 3% | 1 | 3% | 1 |
| This company often has unaudited finances | 43% | 15 | 29% | 10 | 14% | 5 | 9% | 3 | 6 | 2 |
| MEAN | 0.5 | | 0.26 | | 0.09 | | 0.06 | | 0.043 | |
| Standard deviation | 0.0 | | 0.06 | | 0.05 | | 0.01 | | 0.01 | |

The table 4.4.2 shows the results reflecting ways within Global Paints Limited that improve on cash flow effectiveness. In their perspective, a mean of 0.5 strongly agreed that the organization have put in place ways in place that improve on organization performance; those who strongly disagreed had a negligible mean of 0.043.

4.2.3. Findings on the relationship between budgetary control and cash flow Effectiveness used in Global paints limited

Using a scale on a 5 point range from 1 to 5 such that 1 represents Strongly Agree, 2- Agree, 3- Not Sure, 4- Disagree, 5- Strongly Disagree. The means close to 1 or 2 indicates an agreement with the item while mean for the items close to 4 or 5 indicates a disagreement with the items.

According to the table below, results show the aspect of budgetary control in Global Paints Limited; Budgetary control has resulted to increased cash inflows (Mean = 1.53), This company has opportunities in place for increasing cash flow (Mean 1.77), This company has difficulty in raising cash flows (Mean = 1.9), This company's saving interest is always above average (Mean = 1.15) This company always generate steady cash flows (Mean = 1.31), I The board always monitors cash flow movements (Mean = 1.5). Overall, the results show that the employee at Global Paints Limited are relatively competent with good performance figures as indicated by the overall mean of 0.476 is a clear indication that there is a strongly positive relationship between budgetary control and cash flow effectiveness. Much of the results are reflected in the table below.

Table 4.4.2 relationship between budgetary control and cash flow effectiveness in Global Paints limited

| Budgetary control and cash flow effectiveness | SA | f | A | f | NS | f | D | f | SD | f |
|--|------|----|------|----|------|---|------|---|------|---|
| Budgetary control has resulted to increased cash inflows | 29% | 10 | 43% | 15 | 14% | 5 | 6% | 2 | 9% | 3 |
| Funds always go unbudgeted for | 71% | 25 | 14% | 5 | 6% | 2 | 6% | 2 | 3% | 1 |
| This company always experiences budget deficits | 29% | 10 | 43% | 15 | 14% | 5 | 9% | 3 | 6% | 2 |
| Are figures reported by the board always reconcile the budgetary information passed to the budget holder | 57% | 20 | 29% | 10 | 3% | 1 | 9% | 3 | 3% | 1 |
| There is always a set form of budgetary report, which goes to the board | 43% | 15 | 29% | 10 | 20% | 7 | 6% | 2 | 3% | 1 |
| There are always variations in incomes and expenditure reported to budget holders and the board | 57% | 20 | 14% | 5 | 6% | 2 | 6% | 2 | 3% | 1 |
| MEAN | 0.47 | | 0.28 | | 0.10 | | 0.06 | | 0.04 | |
| Standard deviation | 0.12 | | 0.08 | | 0.04 | | 0.01 | | 0.01 | |

Source: Primary Data

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0. INTRODUCTION

This chapter summarizes all key findings according to the study objectives. The study aimed at finding out the relationship between Cash flow Effectiveness, Budgetary Control, network and Cash flow Effectiveness,

5.1. SUMMARY OF FINDINGS

The study revealed several indicators that determine Cash flow Effectiveness and they include; Budgetary Control, recovery rate, risk management, interest rate and the debt to equity. This is in line with Binswanger and Khandker 1995 who state that specific financial services include cash flows to acquire fixed Working Capital and saving services that enable reserves to be built by borrowers. Access to financial services enables an asset base to be built and therefore improves ability to generate revenue from the assets acquired. Referring to the previous chapter, Cash flow Effectiveness has a moderate relationship with Cash flow Effectiveness which is in line with (Wahab, 1996) who states that if for some reason, the GPL Cash flow Effectiveness is falling, the productivity ratio can only remain good when output is falling at a slower rate than the fall in Cash flow effectiveness value. Effectiveness in the use of inputs is important because it achieve set output targets at less cost per unit of output.

Budgetary Control of Global Paints Limited is majorly classified into organizational and human Budgetary Control. Human Budgetary Control has a direct impact on cooperation, access to resources and communication. This is in line with Rothwell and Kazanas (1992) who states that in any job an individual was required to make a response to a situation, or to take a decision. This response leads to consequences or outcomes to the individual and the organization. Organizational Budgetary Control depends on how Global Paints Limited laid down its structure to interrelate the knowledge, skills and assets to serve and reach its goal. This is in line with (Kumiko, 1995). Drejer, (2000) defined organizational Budgetary Control from a structural viewpoint as a system of technology, human beings, organizational (formal) and cultural (informal) elements and the interactions of these elements. This finding is also in line with New (1996) who defines organizational Budgetary Control as knowledge, expertise and capabilities which have been collectively learned by a firm and which enable it to distinguish its Cash flow Effectiveness from that of its competitors. He identified three discrete categories of organizational Budgetary Control.

According to finding discussed in the previous chapter, organizational Budgetary Control of Global Paints Limited has a great impact on its Cash flow Effectiveness which is in line with Kolb et al (1994) who established a positive and significant link between managerial competency and effectiveness of the organization. Kolb et al found out that managers, who have well articulated vision, interpret events, mobilize employees to aim at the vision and facilitated the organization to achieve superior

Cash flow Effectiveness through effective achievement of organizational goals (Lando and Wilson, 1994). The researcher concurs with this view and believes that a shared vision lays a foundation for effective Cash flow Effectiveness.

5.2 CONCLUSIONS

The Cash flow Effectiveness of Global Paints Limited Uganda Limited in terms of efficiency, coordinating programs, self sustainability and capacity to disburse, track and recover cash flows has remained constrained by limited funds. However with emphasis on Budgetary Control and network, Cash flow Effectiveness will improve and hence the Cash flow Effectiveness will also increase.

Global Paints Limited's main source of funds is microfinance institutions which also limits on their disbursement and hence limiting the Cash flow Effectiveness of the organization. This has limited the company's cash flow disbursement and eventually the market base limited too. This can also be evidenced in Global Paints Limited having branches in only 8 districts in Uganda out of the 80 districts meaning a 10 percent branch distribution country wide.

According to Pearson's correlation there is significant positive relationship between any of the key areas that boast Cash flow Effectiveness and Budgetary Control, network and amount of Cash flow Effectiveness with Budgetary Control having the greatest impact on Cash flow Effectiveness.

5.3. RECOMMENDATIONS

Considering the findings of this study, in order Global Paints Limited to improve on its Cash flow Effectiveness, the following have to be done;

- i. There is need for a broad survey in all the microfinance institutions in Uganda so that a clear view on what is happening in microfinance can be summarized. This survey can help display collective problems affecting microfinance and individual problems and hence look for possible solutions.
- ii. There is need to source for more funds especially from bigger financial organization like the central GPL in order to increase on its cash flow disbursing abilities and hence be able to fulfill all the requests of their customer.
- iii. Global Paints Limited needs to open up more branches in the country in order to improve on its Cash flow Effectiveness and be able to compete with well established Small and Medium Enterprises in the country. This will help it capture more customers and hence its Cash flow Effectiveness may increase.

5.4. AREAS FOR FURTHER STUDIES

The following areas are worthy for further research;

- i. Working capital management and organization efficiency.
- ii. Effects of budgetary control towards organizational profitability

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APPENDIX I: RESEARCH INSTRUMENTS

a) Research Questionnaires

Dear respondent, I am MBABAZI MOSES in 3rd year of my studies at Kampala International University, and as part of my course am conducting a study on Budgetary control and Cash flow effectiveness. As one of the employees your opinions are very important to this study. The information provided will only be used for academic purpose, and will be treated with confidentiality. Thank you for your co-operation.

SECTION A: Background information.

1. Gender

Male

Female

2. Age group (please tick the appropriate box).

20-24

25-29

30-34

35-39

40-49

50-59

60 and above

3. Level of education (Please tick in the appropriate box).

Below O- Level

O- Level

A -Level

Tertiary

39

University

Others (specify)

4. How many complete years have you been working in this organization?

Less than a year

1-3 years

4-6 years

Others

5. Current title.

Manager

Middle managers

Administrators

Tellers

Others (specify)

Section B: BUDGETARY CONTROL

For each of the statements/questions on the following pages, indicate the strength to which you attach to a particular statement.

Please tick the appropriate box (strongly Agree = SA, Agree = A, Not Sure = NS, Disagree = D, Strongly Disagree = SD).

(a) Forms of budgetary control

| QUESTIONS | SA | A | NS | D | SD |
|--|----|---|----|---|----|
| Has this organization developed a strategic business plan? | | | | | |
| Is there a requirement to meet financial targets in the business plan? | | | | | |
| Dose the plan for this organization always include a budget? | | | | | |
| Dose the performance related pay motivate you to work for this organization? | | | | | |
| Is the organizational budget aligned with the risk management plan? | | | | | |
| Is there a contingency plan in place to deal with deficits? | | | | | |
| Are budgetary responsibilities always established? | | | | | |
| Are staffs aware of their responsibilities? | | | | | |
| Are budget holders always involved in the settings of the budget? | | | | | |

(b) Cash flow effectiveness

| QUESTIONS | SA | A | NS | D | SD |
|--|----|---|----|---|----|
| Has business and strategy increased cash flow over the past three years? | | | | | |
| Dose this company have opportunities in place for increasing cash flow? | | | | | |
| Does this company have difficulties in raising cash flows? | | | | | |
| Dose this company always compare the annual operating budget regularly with actual expenses? | | | | | |
| Dose this company always generate steady cash flows? | | | | | |
| Dose the board always monitor cash flow movements? | | | | | |
| Dose this company often have audited finances? | | | | | |

(c) Budgetary control and cash flow effectiveness

| QUESTIONS | SA | A | NS | D | SD |
|--|----|---|----|---|----|
| Has budgetary control resulted to increased cash flow? | | | | | |
| Do funds always go un budgeted for? | | | | | |
| Do figures presented to the board always reconcile with the budgetary information passed to the budget holder? | | | | | |
| Is there always a set form of budgetary report which goes to the board? | | | | | |
| Is there always variation in income and expenditure reported to budget holders and the board? | | | | | |

PART B INTERVIEW GUIDE

1. Does the company carry out budgetary control?
2. To what extent has budgetary control and cash flow effectiveness contributed to the development of Global Paints Limited?
3. Does the budgetary control and cash flow management have any effect on the employees' behavior?
4. Are the employees in Global Paints Limited involved in budgetary control?
5. How has cash flow effectiveness influenced decision making in Global Paints Limited?

APPENDIX II. TIME FRAME FOR RESEARCH

| ACTIVITY | DURATION IN DAYS |
|--------------------------------|-------------------------|
| Proposal writing | 30 |
| Data collection | 15 |
| Data editing and coding | 10 |
| Data analysis and presentation | 15 |
| Report writing and Compiling | 18 |
| TOTAL TIME PERIOD | 88 |

APPENDIX III BUDGET:

The study is estimated to cost 300,000/= arrived at as follows:-

| Item | Cost (Ug sh) |
|------------------------------------|----------------|
| Accommodation | 100,000 |
| Transport | 100,000 |
| Communication phone/ Fax/ internet | 50,000 |
| Photocopy | 20,000 |
| Binding | 50,000 |
| Stationary | 30,000 |
| TOTAL | 350,000 |